

Banking

Stable Performance Amid Macro Pressures

Highlights

- The banking sector's Aug 25 stats remained resilient despite macro headwinds. Loan growth held steady at 5.4%, asset quality improved with GIL at historical lows, and liquidity stayed healthy with LDR below 90%.
- We expect sector earnings to grow 3%/5% in 2025/26 respectively. Earnings resilience is underpinned by an around 5% loan growth, stable credit costs, manageable NIM pressure, and potential non-interest income upside.
- Maintain OVERWEIGHT.** We remain constructive on the sector. Valuations remain appealing, with the sector trading at a mean P/B of 1.10x and offering an attractive dividend yield of 6.0%/6.5% for 2025/26 respectively.

Analysis

- Aug 25 loan growth stable at 5.4%.** Aug 25 loans growth remained stable at 5.4% (Jul 25: 5.4%). Business loan growth accelerated to 5.0% in Aug 25 (Jul 25: 4.7%), driven by stronger working capital loans (4.8% vs 4.1%). Household loan growth eased slightly to 5.7% (Jul 25: 5.8%) on softer residential property loans. We maintain our 2025 loan growth forecast at 5-6%, implying a 1.4x loans-to-GDP multiplier, broadly in line with the historical 1.0-1.7x range. For 2026, we assume a 5.0-5.5% growth, reflecting banks' more disciplined focus on margins. Meanwhile, loans approval and application growth were relatively flattish.
- Deposit growth improved marginally to 3.8% yoy in Aug 25 (Jul 25: +3.7%),** lifted by both stronger fixed deposit growth (+2.7% vs +2.3% in Jul 25). CASA growth stayed strong at 6.1%. The loan-to-deposit ratio inched up to 89.4% (Jul 25: 88.8%) as deposits lagged loans growth. Overall liquidity remains healthy, with banks retaining the flexibility to tap the bond market for cheaper funding compared with costly wholesale deposits.
- GIL ratio eased slightly to 1.43% in Aug 25 (Jul 25: 1.44%),** driven by improvements in household loans. The business segment's GIL ratio held steady at 2.00% after a 6bp uptick in Jul 25. With overall sector loans loss coverage ratios averaging a healthier 90% (vs pre-pandemic's 80%) and GIL at historical lows, we expect credit costs to remain stable at 17bp.

OVERWEIGHT
(Maintained)

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Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Public Bank	PBK MK	BUY	4.33	5.24
CIMB Bank	CIMB MK	BUY	7.34	8.25
Hong Leong Bank	HLBK MK	BUY	20.52	23.80
RHB BANK	RHB MK	BUY	6.60	7.55
AMMB	AMM MK	BUY	5.65	6.08

Source: Bloomberg, UOB Kay Hian

Banks' Share Price Performance

Company	Price (RM)	yoy % chg	Ytd % chg
AMMB	5.65	13.0	3.1
RHB Bank	6.60	6.8	1.9
HL Bank	20.52	(4.8)	(0.2)
Maybank	9.91	(5.4)	(3.2)
Public Bank	4.33	(5.0)	(5.0)
HLFG	17.22	(10.9)	(6.9)
Bank Islam	2.29	(15.2)	(7.3)
Alliance Bank	4.37	0.8	(7.3)
CIMB Group	7.34	(8.8)	(10.5)
Affin Bank	2.33	(11.5)	(15.5)

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 30 Sep 25 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024 (x)	PE 2025F (x)	PE 2026F (x)	Yield 2025F (%)	ROE 2025F (%)	Market Cap. (US\$m)	Price/NAV ps (x)
Public Bank	PBK MK	BUY	4.33	5.24	21.0	24-Dec	11.8	11.4	10.7	5.3	12.5	19,964	1.4
CIMB Group	CIMB MK	BUY	7.34	8.25	12.4	24-Dec	10.3	10.2	9.4	5.4	10.9	18,773	1.1
HL Bank	HLBK MK	BUY	20.52	23.80	16.0	25-Jun	10.0	9.0	8.3	5.6	11.4	10,566	1.0
RHB Bank	RHBBANK MK	BUY	6.60	7.55	14.4	24-Dec	7.3	7.3	7.1	10.3	9.5	6,838	0.8
HLFG	HLFG MK	BUY	17.22	21.56	24.3	25-Jun	24.1	23.6	22.3	2.8	9.5	4,684	2.4
AMMB	AMM MK	BUY	5.65	6.08	7.6	25-Mar	2.0	2.0	1.9	12.6	9.4	4,439	0.2
Maybank	MAY MK	HOLD	9.91	10.52	6.2	24-Dec	15.0	16.2	15.1	3.7	10.6	28,438	1.4
Alliance Bank	ABMB MK	HOLD	4.37	4.84	10.8	25-Mar	9.0	8.5	8.1	5.3	9.8	1,796	0.9
Bank Islam	BIMB MK	HOLD	2.29	2.45	7.0	25-Mar	8.3	8.4	9.2	6.0	7.1	1,233	0.6
Affin Bank	ABANK MK	HOLD	2.33	2.55	9.4	25-Mar	11.1	10.7	8.7	2.8	4.5	1,402	0.5

Source: UOB Kay Hian

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector. Valuations remain appealing, with the sector trading at a mean P/B of 1.10x and offering an attractive dividend yield of 6.0-6.5%. Its liquid large-cap profile also positions it well to capture potential foreign inflows from emerging market fund rotation on expectations of further Federal Reserve rate-cuts. Looking ahead, NIM recovery in 2026 – driven by deposit re-pricing following the OPR cuts in 2H25 – together with sustained non-interest income growth, should underpin a stronger earnings rebound in 2026. Despite prevailing macroeconomic headwinds, we believe the sector is well-positioned to weather challenges, supported by ample provision buffers, robust capital position and FVOCI reserves.
- **Top sector picks.** Our BUY list blends high-beta names with attractively valued banks. Reflecting a stronger risk-on stance, we have included three high-beta picks – CIMB, RHB, and AMMB – while maintaining conviction in Public Bank and Hong Leong Bank, which continue to trade at -1SD below historical mean P/B and offer solid provision buffer.

Sector Catalyst/Risk

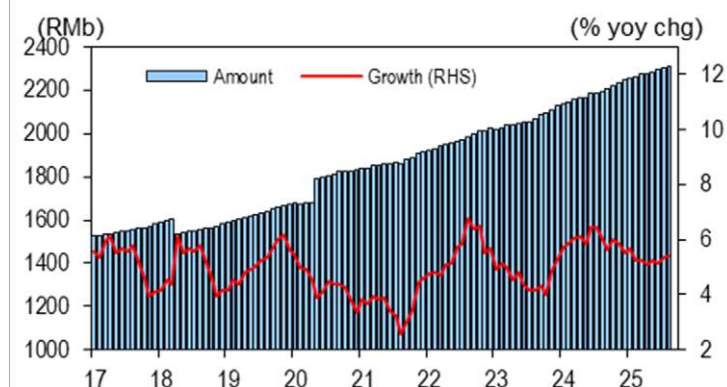
- **Catalysts.** Non-interest income tailwinds, potential capital management upside, beneficiary of emerging market fund flow from narrowing Fed fund rate-OPR differential, NIM recovery in 2026.
- **Risks.** Key risks to our sector view include a sharper-than-expected secondary impact from US tariff-driven macroeconomic headwinds, which could trigger a spike in provisioning, as well as the possibility of more than two OPR cuts, leading to a steeper-than-expected NIM compression.

Summary Of Banking Data

	yoy % chg		
	Jun-25	Jul-25	Aug-25
Loan Outstanding	5.1	5.4	5.4
- Business	4.0	4.7	5.0
- Household	5.9	5.8	5.7
Loan Applied	1.3	(0.9)	2.1
- Business	4.4	(2.1)	0.9
- Household	(0.9)	(0.0)	3.2
Loan Approved	(0.4)	(4.8)	0.0
- Business	3.2	(7.7)	(2.0)
- Household	(4.2)	(1.7)	2.3
Loan Disbursed	(6.0)	(4.7)	(41.8)
- Business	(8.0)	(6.4)	(10.7)
- Household	1.8	1.3	(4.4)
Loan Repaid	(4.9)	(7.5)	(8.7)
- Business	(6.5)	(9.8)	(11.2)
- Household	1.3	1.6	0.3
Impaired Loans	(6.3)	(4.0)	(4.3)
- Business	(9.2)	(4.6)	(5.9)
- Household	(2.6)	(3.2)	(2.4)

Source: BNM

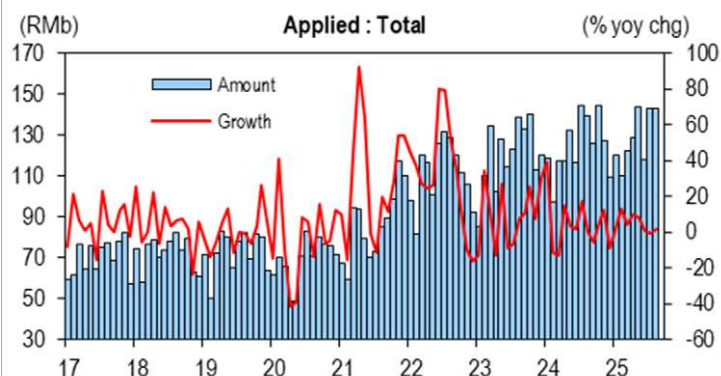
Total Outstanding Loans



Source: BNM

- Aug 25 loans growth remained stable at 5.4% (Jul 25: 5.4%). Business loan growth accelerated to 5.0% in Aug 25 (Jul 25: 4.7%), driven by stronger working capital loans (4.8% vs. 4.1%).
- Household loan growth eased slightly to 5.7% (Jul 25: 5.8%) on softer residential property loans.

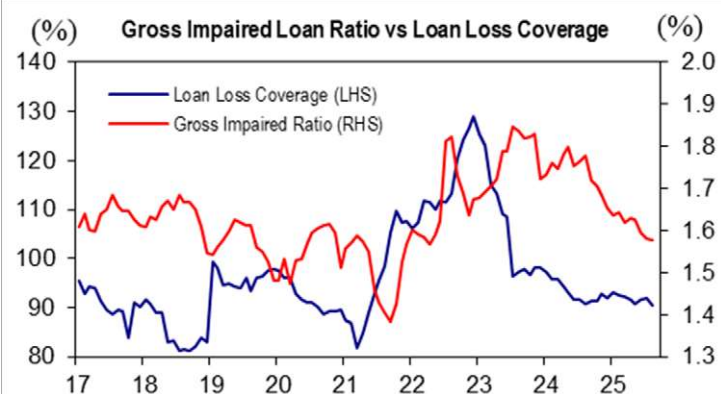
Total Loan Applications



Source: BNM

- Loan application growth improved to 2.1% yoy on the back of stronger household and business loans applications.
- Loans approval growth was flattish. Stronger household loans approval growth was offset by a slight contraction in business loans approvals.

Net Impaired Loan Ratio Vs Loan-Loss Coverage



Source: BNM

- The GIL ratio eased slightly to 1.43% in Aug 25 (Jul 25: 1.44%), driven by improvements in household loans. The business segment's GIL ratio held steady at 2.00% after a 6bp uptick in Jul 25.

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